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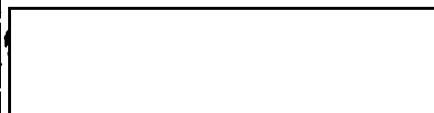


S-08323

28 April 1975

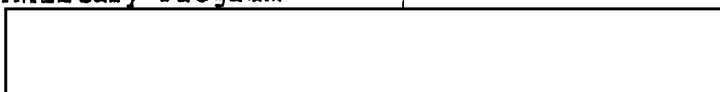
CIA/OER/S-08323-75

MEMORANDUM FOR: Glenn E. Blitgen, OSD/ISA  
Department of Defense  
The Pentagon



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SUBJECT : Economic Impact of the Shah's  
Military Program



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1. Attached is a short analysis on the "Economic Impact of the Shah's Military Program" which responds to part of the request that you made on 23 April. We will follow up with an analysis of the US involvement in Iran's military development when we receive from you some of the basic data on present and projected US military assistance to Iran.

2. Should you have any questions, you can contact



Attachment:

As stated above

Distribution: (S-Project 08323)

Orig. & 1 - Addressee

1 - D/OER, DD/OER, SA/ER

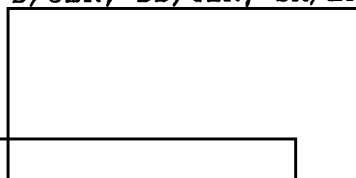
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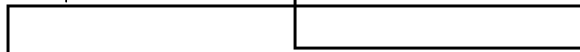
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Economic Impact of the Shah's Military Program

The Shah's efforts since 1968 to modernize and expand his military forces have resulted in a far greater spending priority to defense than to any other major sector. Defense outlays over the past seven years rose fifteen fold and totaled about \$21 billion -- only slightly less than the amount for social and economic development. Present expenditure on defense of over \$8 billion annually exceeds that for overall economic development.

The economic dividends from Iran's massive military spending are for the most part non-quantifiable. A strong military force undoubtedly provides security against foreign interference with Iran's vital oil exports and promotes internal stability conducive to foreign investment in the Iranian economy. The military provides incomes and training for hundreds of thousands of Iranians. The armed forces doubled in size from 207,000 in 1967 to 454,000 in 1975.

The costs to Iran both past and present, however, outweigh the advantages of the military expansion.

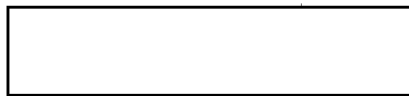
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Many of the serious economic maladies now confronting the economy are traceable directly to lack of adequate investment in the social and economic sectors during earlier periods when spending priorities went to defense. Additional investments at that time in education, agriculture, port and transportation, and basic industry would have alleviated present difficulties in these areas. Currently, the very large military program causes strains on domestic resources. The backlog and delay in supply of industrial and civilian goods is caused in part by the priority given to heavy military imports. Similarly, the diversion of scarce construction materials and labor to military projects retards and adds to the cost of other building. Moreover, military spending fuels inflation.

CIA/OER  
20 April 1975

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